Pioneer

How to Create and Manage Innovation

Derived From: Eric Ries; *The Lean Startup*
Pioneer

How to Create and Manage Innovation

THE BOOK
Eric Ries, *The Lean Startup*

THE BIG IDEA
A management guide for the new age of innovation and uncertainty. Innovation is the opposite of business as usual. And, the usual ways we manage and account for success are about getting known tasks completed. This doesn’t work when it comes to creating the new, unique and different.

SPEED RAP
The *Lean Startup* marries the scientist and the entrepreneur to create a reliable process for creating new products and new businesses. Rather than guessing what your customers want, build your Minimum Viable Product, measure its impact and learn the next step. Repeat, repeat and repeat until you have sustainable success.

YOUR CHALLENGE
Be a pioneer and create something new - a new product or a new organization. Then turn your one-off into a continuous innovation machine.
Contents: Pioneer

*Book Rapper* issues are not direct summaries of the books we review. We take what we consider to be the most important ideas from the book. We then re-package these key ideas so you can easily digest them in about 30 minutes. We also make it clear how you can take decisive action to benefit from these insights. In some parts we follow the book closely and in others we add our own models and interpretations. Given the *Book Rapper* issue is much smaller than the book we may not cover each chapter. If you want more details than what's in this issue, we say 'buy the book'.

**Review**

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**THE BOOK RAPPER?**

*Geoff McDonald* is a former architect who no longer designs buildings. Instead, as the *Ideas Architect*, he helps individuals and organisations to design, build and sell their ideas.

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BR Review: The Lean Startup

Eric Ries
The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

PRÉCIS
A New York Times best seller that has sparked a global movement. It’s a philosophy for innovation that will help you turn your ideas into products and your products into successful businesses.

BENEFITS
Easy to read and filled with practical examples that will enhance your productivity and shift your thinking.

WHO IS IT FOR?
It's THE bible for startups and innovators. Perfect for those in organisations. And, it’s a bold challenge to anyone in management and leadership.

ERIC RIES
Entrepreneur and author of the popular blog Startup Lessons Learned. He cofounded and served as Chief Technology Officer of IMVU, his third startup. His Lean Startup methodology has been written about in many blogs and major media outlets. He is a frequent speaker at business event, has advised numerous startups and is an entrepreneur in residence at Harvard Business School.

BOOK WEBSITE
TheLeanStartup.com

BOOK RAPPER SAYS...
This book has tipped my thinking about business upside down. And, I'm still learning how to do this well...
RAP1 : You Are A Startup!

Profit: Don’t let the word ‘startup’ fool you. You don’t have to be starting a whole new organisation from scratch, you merely need to be starting something new. For instance, creating a new product or service.

Why Startups Fail

We hear the success stories... an entrepreneur starts a business in his parent’s garage and goes onto billion dollar success. It does happen. The two Steves started Apple this way. And, whilst it does happen, it’s the exception, it’s a rarity and it’s highly unlikely.

Two Problems

Typically we start with a good plan. Or at least we think it’s a good plan. It’s based on strong strategy and extensive customer research. In the past this would have been enough.

The first problem is there’s simply too much uncertainty for this approach to work because the world is changing so quickly. What worked literally yesterday may not work today or tomorrow.

Secondly, there’s uncertainty because our plan is based upon our own assumptions. Traditional management methods are based on prediction and control. They’re great for when your market is established, the product is tested and you have a ready and willing list of paying customers. And, they’re ideal for incremental improvement.

In contrast the world of the startup often looks like this… The entrepreneur has a brilliant idea that everyone will want. So, they spend months or maybe even years creating it, perfecting it and refining it. Throughout this process they never gain any real feedback from any potential customers. Then they launch with a lot of fanfare to a surprised audience who responds with indifference. And, the venture fails or performs poorly.

Authors often fall for this trap. They sit down for months writing their book and then release it to the market only to find few people are as excited as the creator.

Definition

A Startup is an organization dedicated to creating something new under conditions of extreme uncertainty.

Uncertainty + Assumptions
RAP2 : Five Principles

PROFIT: The Lean Startup Method is based on five principles. They highlight the difference between traditional management that aims to get things done and innovation management that aims to create new things.

ENTREPRENEURS ARE EVERYWHERE
Startups don't just happen in garages. Anyone creating a new product or service is effectively a startup. And, this includes people working within large organisations.

ENTREPRENEUR = MANAGER
Normally we view entrepreneurs and managers as two different species operating in vastly different worlds. However, a startup is not just about the product. It's ultimately an organisation that needs management to make it happen. And, whilst the world of big business has proven methods for big organisations we do need to adopt some new principles for managing innovation and startups.

VALIDATE LEARNING
Whilst we might set out to make something original, create a new revenue stream or serve our customers in different ways, the number one goal of a startup is to learn how to build a sustainable business. And, this learning can be validated by running regular experiments to test your assumptions and find out what works with actual customers. The key is to learn what people value enough to pay for.

BUILD-MEASURE-LEARN
The basic activity of a startup involves three things: build your product, measure the customer’s response and learn whether to keep going or change direction. The true game is to accelerate this feedback loop. The faster you can learn what the market values the more likely you can build a sustainable business.

INNOVATION ACCOUNTING
Innovation is not a free-for-all. We need to be held to account for our actions. We need to measure progress, establish milestones and prioritise the important tasks. We need a new way of accounting designed for startups.
**One Clear Vision**

To fulfil this vision one needs a strategy. This includes a business model, a product road map, a point of view about partners and competitors, and ideas about who the customer will be.

The product is the end result of applying the strategy. This is important. Many startups fail because they focus solely on the product without a viable business model. Whilst it's easy to point to *Facebook* and *Twitter* as examples of companies that have survived without early cash flow, they're the one in a million exception to the general rule.

A product in this context is defined in the broadest sense as something that proves to be of value to customers. It may be software, hardware, physical, digital, an experience, a service or some combination of these.

**The Lean Startup Process**

The Lean Startup Process can be summarised in three words: **Build > Measure > Learn**. Simply put, you need to build a prototype to measure what works and learn what your customers want. Repeat this process as many times and as fast as you can. And, hopefully from this you will learn how to build a sustainable business.
RAP4 : What to Build?

PROFIT: The first step for a startup is to figure out the right thing to build. And, to do this as quickly as possible. Your guiding question is: What do customers actually want and will pay for?

Three Problems
There are three problems with the traditional market research approach to creating new products:
- People don't know what they want
- If they do, it already exists, and
- They won't pay for it.

Skip this step! That's right - NO customer research. Instead, build something real that enables you to get immediate and real-world feedback. Then improve it based on the feedback you get.

Four Questions
There are four basic questions you need to know about your customers:
- Do consumers **recognise** that they have the problem you are trying to solve?
- If there was a solution, would they **buy** it?
- Would they buy it **from us**?
- Can we **build** a solution for that problem?

Don't jump to question four until you've answered the first three questions.

Two Theories
Once you've worked out what to build you need to do it a particular way.

Often a startup will create something and put it out in the market. This is useful to see what happens and it's not enough.

Instead, like a scientist, you want to create a series of experiments designed to test which parts of your strategy are brilliant and which are duds.

Start with a clear hypothesis or theory that predicts what you expect to happen. Then test these predictions.

The two crucial theories you want to test are:
- **Your Value Hypothesis**: Whether a product or service really delivers value to customers once they are using it.
- **Your Growth Hypothesis**: How new customers will discover a product or service.

Your aim here is to find early adopters. This group is open to trying the latest new thing, they're usually eager to give feedback and they're likely to forgive an early mistake.
Rap5 : Minimum Viable Product

profit: Perhaps the most popular term from the Lean Startup methodology is the Minimum Viable Product or MVP. This is the product version that enables a full turn of the Build-Measure-Loop with the minimum effort and least amount of development time. Here’s how to create yours...

**Start small**

During the Dot Com Bubble of 1997-2000 many startups ran out of money and failed because they built one big full-scale experiment. Instead, by building more smaller experiments you give yourself a greater chance for success. This is the benefit of starting with few resources. It forces you to start small.

This is the principle of the MVP: *Do the minimum to test your product.*

Naturally, you’ll have fewer features than you might want in your full version. And, you can add them later if that’s what your customer testing suggests you need.

Do just enough to get it front of potential customers to gauge their reactions.

**MVP Examples**

To create your Minimum Viable Product identify the elements of the plan that are assumptions rather than facts and figure out ways to test them. Here’s four suggestions...

**PreSell**

Before you create the content for a seminar or course, write one page of sales copy and see if people are interested in your idea. Can you collect revenue before you invest time money and effort into building your product?

**Mock-Up**

Dropbox founder Drew Houston created a 3-minute video to see if there was interest in their idea. Rather than build a functioning example, they merely presented a controlled view or mock-up of what they were proposing.

**Single Customer**

Become the concierge who delivers your result for only one person at a time. Whilst this may be time-consuming it will give you precise insight into what works, what doesn’t and most importantly, what is valued by your customer. You can experiment with scale later.

**Build Something**

If you can quickly and easily build a *prototype*, what would be the minimum features you would need to include? You can always add features later if your customers really want them.
RAP6 : Measure Progress

PROFIT: Typically, we measure the wrong things. Whilst ‘learning’ is useful it doesn’t pay the bills. We need to learn what works in building our business. Here’s how to measure the right things...

Learning Milestones
Start by testing the most important assumptions to establish the business baseline. What level of conversion rates, sign-up rates, customer lifetime value etc apply to your unique situation and your intended customer? Once you establish your foundation you want to be able improve your adoption rate and growth drivers. If it’s likely your business could be a sustainable venture then keep experimenting. If not, it might be time to pivot and change tack.

Optimise Versus Learn
Our goal is to learn how to translate our idea into a business. And, this relies on building the right product. Don’t improve or optimise your product until you can answer this question: Can we build a sustainable business around this product or service?

Vanity Metrics
Avoid measuring things simply to present the rosiest possible picture. A classic example is cumulative statistics. If we simply add our website visitors from last month to this month we can draw a pretty graph with an upward trending curve. Avoid asking ‘Are we growing?’ Instead, engage in the question: Are we growing fast enough to become sustainable?

Can we directly measure the result from a specific action? For example, a classic split test where you provide different versions to customers at the same time. If Method A returns a result of 7% and Method B returns a result of 12%, we then know that Method B is a better option.

Avoid data for the sake of it. Keep your metrics as simple as possible so everyone can understand them. For example, a website might only have three metrics: how many people visit, how long they stay and whether they register for your special offer. The aim is for everyone on the team to be able to see what results are being produced at any time. Add a public scoreboard like in a football match.

We need the numbers to be credible and easy to check with real customers. If the data says that 83% of your customers click on a certain button, you can then ask a couple of them face to face if this is accurate.
Rap7: Pivot or Persevere

PROFIT: Should we continue or not? This is a crucial question faced by every innovator. There are two key choices here. To continue as planned (Persevere) or to switch focus (Pivot). Here we help you make this super important decision.

The BIG Question

Are you making enough progress to believe that your original theory or hypothesis is correct? Or, do you need to make a major change?

That change is called a pivot. It’s a change of direction based upon the need to test a fundamentally different hypothesis about the product, the strategy or the rate of growth.

The key question to ask to decide whether to pivot or persevere is: Are our product experiments becoming more or less effective?

A pivot does not mean you start again from scratch. It’s merely a change in your business hypothesis.

For example, if you were testing whether men and women will buy gloves online and you find out that only women in their 20s will, you may want to adjust your focus.

The aim of the pivot is to absorb what you have learnt so far and build a new business strategy based on this. And, whilst it’s tough to pivot, a failure to do so may mean never reach your goal.

Different Types of Pivots

**ZOOM IN**
A single feature becomes the whole product.

**ZOOM OUT**
The whole product becomes a part of a bigger product.

**CUSTOMER NEED**
We started out thinking our customer needed X, we now know they value Y more.

**PLATFORM**
You might start building a platform and revise this to being an application on someone else’s platform.

**VALUE CAPTURE PIVOT**
You find an alternative way to receive value from your offer so you change your pricing or revenue model.

**CUSTOMER SEGMENT**
You might have started to serve young men and realise that older men are better suited to your offer.
RAP8 : Learn Faster

PROFIT: During the Dot Com bubble companies focussed on how many days they had until their cash reserves were depleted. Using the Lean Startup model the focus is on how many times you can pivot. In other words, how many times can you go through the feedback loop of Build > Measure > Learn. Here’s how to increase your speed.

The Need for Speed

The ability to learn faster from customers is an essential capability that startups need to build. It could mean the difference between reaching your goal of becoming a sustainable business or not. Remember, it’s the number of pivots you can make that determines the future life of your organisation.

To increase the rate at which you create new tests consider these three processes...

Turn Hardware into Software

It is much faster to upgrade software than it is to retool a machine and make new physical hardware. Today many products are merely blank boxes that come to life through software. For instance, many of the smartphones on the market earn features through software upgrades not hardware. Typically, Apple will release a new piece of hardware once a year. In between there will be numerous features added and improved through software upgrades.

Small Production Batches

Production lines are no longer following Henry Ford’s model of everything coming out the same. Many are now able to customise their output as easily as they standardise it. Use this to your advantage by creating small product batches that improve on earlier editions.

3D Printing

Being able to create your own prototypes quickly is now possible through low cost 3D printing tools. This is a radical transformation of traditional manufacturing that is likely to disrupt numerous industries.
RAP9: Sustainable Growth

PROFIT: Growing your startup is crucial. And, it begs the obvious question: Where does your growth come from? Some ways of growing are better than others and they will reflect your business model. Here we discuss how you can grow your business in a sustainable way.

Four Ways to Grow

Which of these four ways to grow your business can you apply today?

1 WORD OF MOUTH
The best way to promote word of mouth is to have a remarkable product - one worth talking about.

2 FROM PRODUCT USAGE
Viral products promote themselves when they’re used. This applies to fashion items, new cars and Facebook. The more they’re used the more they’re seen.

3 THROUGH FUNDED ADVERTISING
It’s not sustainable if you’re using investment capital. To be sustainable you need to be able fund your advertising from a sustainable income source such as sales.

4 THROUGH REPEAT PURCHASES
If your product is designed to be bought repeatedly, such as a subscription to a magazine or a phone service, future purchases will come if you look after your existing customers. Alternatively, if your product is a consumable, such as printer cartridges or food, repeat sales can be obtained through existing customers.

Past Customers
Ries uses the term ‘sustainable growth’ to exclude the growth that comes from one-off activities. This sets up a simple rule for sustainable growth: New customers must come from the actions of past customers.

New customers must come from the actions of past customers
RAP10 : Engines of Growth

PROFIT: As a startup you’re not trying to optimise your business, you’re trying prove that it can work as a sustainable enterprise. Therefore, you’ll need to experiment to find the best way to grow. Generally a startup will focus on one engine of growth because it requires a certain specialisation to make each one work. Which one are you building?

1. **Sticky Growth**
   - A sticky growth rate is where the rate of new customer acquisition is higher than the churn rate. If you repeat this over time your business will grow. Focus on measuring: How many new customers you are attracting? And, how many are you keeping?

2. **Viral Growth**
   - Viral growth depends upon your customers passing on your product as a necessary part of normal product use. Think of this as word of mouth marketing baked into your product. For instance, the free web-based email service Hotmail added a simple footer link to every email that was sent.

3. **Paid Growth**
   - Paid growth works provided the cost to acquire the customer is less than the revenue they bring in. For example, if you make a $10 profit from every sale you can afford to pay $2 per customer to acquire them via Google Adwords. Also, consider the revenue from the lifetime value of a customer compared to that of a one-time purchase.

4. **The Myth**
   - The myth of startups is that all you need is a good idea. The reality is that closer to 95% of your success lives in the gritty testing and measuring of your idea as you build it bit by bit. Once you work out what to build your next challenge is how to grow.
RAP11 : Continuous Innovation

PROFIT: One of the ways that many startups fail is the inability to scale their ideas and process. Nimble and flexible becomes stiff and slow. This says more about the mindset of the people running the organisation rather than any physical limit. Here we consider how to create situations where startup thinking is required continuously over time.

Create a Platform

Building a platform for continuous experimentation is the key to constantly moving forward.

The alarms bells need to ring when you start to hear the question: How do we protect the parent organisation from the startup? Innovation and progress is not a defensive game. And, the worst thing you can do is hide innovation.

One of the great dangers of a closed innovation group is the rise of political forces. The power of the Lean Startup philosophy lives in the transparency of the experiments you perform. The results should speak for themselves and be free from manipulation.

Scarce Resources

Having a glut of resources allows a team to buy its way out of a problem. In contrast, the limit on resources forces the individuals to think about how to get things done in new and novel ways.

Independent Authority

As a parent one of the crucial learning opportunities you need to provide for your children is the autonomy and opportunity for them to learn for themselves. This is the only way your offspring will discover new things, grow new skills and fulfil their own unique potential. The same applies to innovation.

Personal Stake

Some level of ownership in the outcome is crucial to fuel motivation. Whilst the obvious reward may be in the form of dollars, other personal incentives such as promotion or public acknowledgement are likely to lead to better results.
RAP12 : Innovation Sandbox

PROFIT: The opposite of hiding innovation is to create a public place to play - an Innovation Sandbox to promote rapid iterations. Here's eight guidelines for building your sandbox...

- Start small.
- Any team can create a true-split test for parts of the product or service.
- Every team that works inside the sandbox and every product that is built must use the same metrics to evaluate success.
- Every experiment has to be evaluated on the basis of a single standard report of five to ten actionable metrics.
- No experiment can affect more than a specified number of customers.
- One team must see the whole experiment through from end to end.
- No experiment can run longer than a specified amount of time.
- Any team that creates an experiment must monitor the metrics and customer reactions.
PROFIT: Want more? Here's some additional *Book Rapper* issues to consider. Want more than this? We suggest you buy the book! Or buy one of several other like-minded books...

### OTHER BOOK RAPPER ISSUES

**Smart Growth**
Word of Mouth Marketing and Viral Loops are two crucial strategies for growing your business. This issue explores this at a deeper level.
Derived from both Adam Penenberg's *Viral Loop* and Andy Sernovitz's *Word of Mouth Marketing*.

**Greatness**
The flywheel concept in *Good To Great* mirrors the Feedback Loop of the *Lean Startup*. Together they form a powerful partnership of innovating/starting and growing/building.
Derived from Jim Collins, *Good To Great*

**Eye Create**
Living in the space of creating something new means giving up the need for certainty. In this issue, we turn to the neuroscience of personal innovation to suggest how you can handle this more easily.
Derived from Gregory Bern, *Iconoclast*

### BUY THE LEAN STARTUP

**THE LEAN STARTUP**

The *Lean Startup* has spawned a new approach to marketing called *Growth Hacking*. Effectively, you create little experiments to find out the best way to sell your product and slowly optimise your results. Expect to hear more about this emerging trend.